

SHAREHOLDING COMPANY WITH
MIXED OWNERSHIP OF CAPITAL
ТОПЛИФИКАЦИЈА АД - СКОПЈЕ

ТОПЛИФИКАЦИЈА



**ANNUAL REPORT
OF OPERATION AND ACHIEVED RESULTS
IN THE ECONOMIC ACTIVITIES OF
"ТОПЛИФИКАЦИЈА" АД - СКОПЈЕ
FOR THE PERIOD I-XII.2003**

Republic of Macedonia, April 2004

1. INTRODUCTION

The annual report for 2003 was prepared based upon the annual financial calculation, energy and technological balances, as well as separate reports by the separate departments in Toplifikacija AD-Skopje.

It is created in order to supply the necessary information for the Shareholders Assembly on the operation and the results achieved by the shareholding company in the year 2003.

Toplifikacija AD-Skopje is a legal entity carrying out business activities in order to achieve positive financial results - profit. The organizational arrangement of the company has been determined in the form of a Shareholding Company with a mixed ownership of capital

The transformation of the company was achieved during 1999 in accordance with the Law on Transformation of Companies with Public Capital, and also a coordination has been carried out of the company with the Law on Trade companies..

This company has been registered in the registry court Principal Court Skopje I -Skopje, it has been registered in the Trade Registry under T.reg.br.7826 from 05.10.1999 as "Shareholding Company Toplifikacija - Skopje for the Production and Distribution of Heat".

T1. Global Economic Indicators in 2002.

a) Registered consumption in the buildings	533.819	MW
b) Technological capacity		
- Heating plants - available capacity	523.850	MW
- District heating grid - length	148.5	km'
c) Production of heat	783,875	MWh
d) Number of employees on 31.12.2003	354	personnel
e) Consumption of energy sources in our activity:		
- Fuels - in fuel oil equivalents	75,561	t
- Power consumption - active	19,101	MWh
f) Positive financial results - net profit	93,092	10⁶ Den.

The basic economic activity of "Toplifikacija" AD - Skopje consists of production and distribution of heat in the region of the city of Skopje.

The other activities are mainly in function of the basic activity, and are determined as follows: distribution of gas fuels, construction and mounting of structures for district heating and gas supply, investment programs, studies and analyses, investment and technical documentation for thermal energy structures, district heating and gas supply grid, scientific research work, and realization of work in engineering in the thermal-techniques and energy sector, programming and software, as well as other activities. In the past period Toplifikacija has broadened its activities in the fields of marketing and sales as well as in foreign trade.

Toplifikacija is carrying out its activities successfully through several of its sector units: Bureau of Directors; Development, Design and Investments Sector; Sector for Production of Heat and Maintenance of Thermal Apparatuses; Sector of Distribution and Measurement of heat and gas, Economic Sector, Personnel Sector and Information System.

The management of the shareholding company is organized in a two level system in accordance with the Company Law, namely:

- Assembly of the shareholders of the company,
- Supervisory Board of the company,
- Management Board of the company.

The Assembly of shareholders of the company was constituted on 05.10.1999, after coordination of the organization of Toplifikacija Skopje with the Company Law. The Assembly is made up of representatives of the owners of share-holding capital in the company.

The Supervision Board is made up of 5 members supervising the management carried out by the Management Board of the company. Its members are nominated by the shareholders' Assembly.

The Management Board manages the shareholding company, it is an organ made up of 7 members, and its members are nominated by the Supervision Board of the company.

The president of the Management Board manages the shareholding company. The president of the Management Board represents and acts in name of the company in its relations with third parties. The same person is also responsible for issues of the employees and work relations in the company.

The Expert Board is an advisory body to the Director. It reviews all issues of the current operation of the company and the development, and passes decisions and opinions on them.

The employees realize their rights and duties based upon their jobs, in accordance with the Collective Agreement of

the shareholding company.

Health protection of the employees is realized by *Labor Medicine* in our city, and a part of the employees are sent to regular annual recreational vacations. During 2003, there was 5 transgressions on the job, of minor character.

1.1. PERSONNEL STRUCTURE

At the end of 2003 there was a total of 354 employees in "Toplifikacija" AD-Skopje, of which 278 male and 76 female.

T 2a. Personnel structure

Qualification groups			Employees
1.	VIII /1	+Dr.Sci	1
2.	VII/1	+Univ.Diploma	33
3.	VI/1	+Univ. I-degree	8
4.	V	+Highly Qualified	0
5.	IV	+Secondary school	254
6.	III	+Qualified	42
7.	II	+Half-qualified	0
8.	I	+Non-qualified	16
TOTAL			354

During the year 2003 a total number of 11 employees have left our company. There was a reduction of the work force in the year 2003 from 365 to 354 employees.

T2b. Number of employees in organizational units

Department / Sector	Employees
Bureau of directors	7
Sector of Development, design and investments	12
Sector of production of heat and maintenance of thermal apparatuses	117
Sector of distribution and measurement of heat and natural gas	75
Sector of economics	86
Personnel Sector	55
Information System	2
TOTAL :	354

2. REALIZATION OF THE ECONOMIC ACTIVITY

The economic activity of Toplifikacija AD - Skopje consists of production and distribution of heat for the heating of apartment and business buildings which are connected to the district heating system of the city. Toplifikacija carried out its activity in the year 2003 through the district heating plants "Istok" /East/ and "Zapad" /West/, as well as through the boiler houses "11-ti Oktomvri". The boiler houses "Vodno" and "Park" have not been operated, the consumption of heat necessary is being satisfied from the Heating Plant Zapad.

The delivery of heat to the consumers is realized in accordance with the mode temperatures diagram which is designed based upon the variation of outside temperatures in the geographic region of the city of Skopje during the heating season.

2.1. CLIMATIC PARAMETERS

The average outside temperatures for each heating plant and for each month separately, are stated in the next table. From table T3, the average outside temperature in the heating period of the year of 6,09 °C is 0,70°C degrees higher than the design temperature - which is 5,29°C. Compared to the last several years, it was on the same level.

T 3 Average outside temperature for the months in 2003

MONTH	Plan	"Istok"	"Zapad"	"11 Okt."	Average
January	0.9	3.42	3.31	3.11	3.37
February	2.7	0.58	0.42	0.12	0.50
March	6.5	7.8	7.45	7.55	7.68
April	11.0	10.71	10.19	10.92	10.56
October	11.0	11.13	10.78	11.64	11.05
November	7.3	9.35	9	9.08	9.23
December	3.0	2.84	2.69	2.12	2.75
Average:	5.3	6.19	5.91	5.95	6.09

2.2. HEATING PERIOD

The calendar year of 2003 was planned with 183 heating days or 4.392 heating hours. It was planned for the season of 2002/2003 to end on 15.04.2003, and for the new season 2003/2004 to start on 15.10.2003. The heating season of 2002/2003 lasted upon 26.04.2003 and heating season 2003/2004 started, one day earlier, on 14.10.2003 but had one day without heating because of the high outside temperature, so the heating period lasted 194 days in the year 2003.

2.3. INSTALLED CAPACITY

The heat from the Heating Plants "Istok" and "Zapad", as well as from the boiler-houses "11 Oktomvri" and "Park", was delivered to the consumers in the heating months of 2003. The boiler houses "Vodno" and Park, as in the previous heating seasons, remained shut down during the whole year. The total instal heating capacity of Toplifikacija AD of the year 2003 amounted 523,850 MW were hotwater capacity was 491,130 MW and steam capacity was 32,720 MW.

2.3.1. Hot Water Capacity

The total hot water capacity, at the end of year 2003 amounted to 491,130 MW. Of that, 478,300 MW are in active use. The two existing boilers in KO "Vodno" and KO "Park", with a total capacity of 12,830 MW, have been sealed and preserved.

T5. Hot water boiler capacity in active use

Type of hot water boiler	Unit Capacity (MW)	No. of boilers	Location (Heating plant)	Total Capacity (MW)
VKSM - 60	69,780	2	"Istok"	139,560
VKSM - 40	46,520	3	"Istok"	139,560
Total	/	5	TO "Istok"	279,120
VKSM - 20	23,260	2	"Zapad"	46,520
VKSM - 50	58,150	2	"Zapad"	116,300
BKG-100/a	8,150	1	"Zapad"	8,150
Total	/	5	TO "Zapad"	170,970
BKG - 80	5,965	2	"11 Oktomvri"	11,930
BKG - 200	16,280	1	"11 Oktomvri"	16,280

Total	/	3	"11 Oktomvri"	28,210
TOTAL active		15	Toplifikacija AD	478,300

T5a. Hot water boiler capacity in conserved condition

Conserved hot-water boilers	Unit Capacity (MW)	No. of boilers	Location (Heating Plant)	Total Capacity (MW)
CVG - 120	1,94	2	KO "Vodno"	3,880
BKG - 60	4,475	2	KO Park	8,950
TOTAL conserved	/	4	Toplifikacija AD	12,830

2.3.2 Steam Capacity

Total steam capacity was 32,720 MW from which the heating plants "Istok" and "Zapad" continue to satisfy own needs of heat and technological steam with two block boilers each. Of the total steam capacity, two steam boilers BKG-100 are in use in the heating plant "Istok" and two steam boilers BKG-80 are in use in "Zapad", while one steam boiler BKG-80 remains conserved in the heating plant "Istok".

T5b. Steam capacity in active use

Type of steam boiler	Unit Capacity (MW)	No. of boilers	Location (Heating Plant)	Total Capacity (MW)
BKG - 100	7,405	2	"Istok"	14,81
Total	/	2	TO "Istok"	14,81
BKG - 80	5,97	2	"Zapad"	11,94
Total	/	2	TO "Zapad"	11,94
TOTAL active	/	4	"Toplifikacija"	26,75

Table T5b shows the steam boilers which are in active use.

The remaining block boiler in its current location is in the following table.

T5c. Conserved Steam Capacity

Type of steam boiler	Unit Capacity (MW)	No. of boilers	Location (Heating Plant)	Total Capacity (MW)
BKG - 80	5,970	1	TO "Istok"	5,970
TOTAL conserved	/	1	"Toplifikacija"	5,970

2.4. CONNECTED HEAT CAPACITY

The following table shows the state of the capacity according to categories of consumers on 31.12.2002 and on 31.12.2003, according to data from the Economy Sector of Toplifikacija AD - Skopje.

T6. Connected heat capacity on 31.12.2003.

TYPE OF CONSUMERS	2002			2003			Index (7/4)
	Installed	Activ	Engaged (Calculated)	Installed	Activ	Engaged (Calculated)	
1	2	3	4	5	6	7	8
a) Residential space	373.648	368.461	357.474	381.500	375.175	363.766	101.76
1. Colective buildings			329.966	354.425	348.100	336.691	102.4
1.1. Payment 6 months			3.469	3.386	3.386	3.386	97.61
1.2. Payment 12 months			326.497	351.039	344.714	333.305	102.09
2. Individual residential houses			27.508	27.075	27.075	27.075	98.43
b) Business space	180.482	180.298	139.156	215.867	215.534	170.053	101.57
1. Fixed rate payment			41.846	43.620	43.620	41.846	100.00
2. Peyment according to messuring			97.310	138.024	137.691	98.101	100.82
v) Institutions	16.973	16.973	14.608	17.327	17.327	17.327	101.66
g) Elementary schools	15.776	15.776	13.660	16.896	16.896	16.896	111.68
TOTAL:	586.879	581.508	524.898	597.367	590.709	533.819	101.70

From the books of Toplifikacija AD, it is obvious that tree kinds of consumption is registered, namely these are *Installed*, *Active* and *Engaged* capacity of the consumers. The Active capacity is the one determined from the reading of the heat meters during the heating period. A larger part of the consumers from the business as well as individual consumers have a possibility to carry out regulation of the quantity of energy they need, so that the consumption changes compared with the installed situation determined from the mechanical engineering design for the installations of the constructed house.

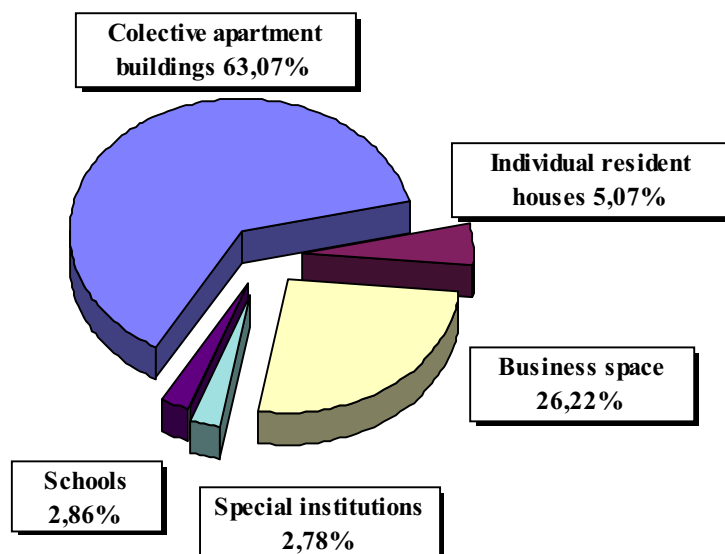
Heat meters are planned in the development planning of Toplifikacija AD, namely installation of heat meters in all buildings which have been connected to the district heating system.

Based upon data from the Economy Sector of Toplifikacija on the consumers with a fixed rate payment, we have accepted the following values for specific heat burdening: 131,228 W/m² for residential apartment buildings and 140 W/m² for business with a fixed rate payment.

The previous table shows that we have a constant change of consumption in the various categories of consumers. We can thus see a constant increase of consumption in the category of collective buildings /high multi-apartment buildings with a vertical distribution in the building) as well as in standard buildings - business.

Of the total number heat consumers connected to our system, residential buildings (individual houses with heat measurement, as well as collective buildings with fixed rate payment) participate with 63,5 % of the installed consumer capacity, and with 63,3 % of the active consumer capacity.

- **installed capacity** is the capacity according to the design documentation, while the
- **active capacity** is the one the consumer is currently utilizing and which is corrected every 3 months in accordance with higher or lower consumption.



2.5 FUEL CONSUMPTION

2.5.1. Consumption of Fuel Oil

In the year 2003, was consumed 66.936 tons of fuel oil. The consumption of fuel oil in the separate heating plants and for each month is given in the following table. From the table, one can see that, compared with the planned quantities, all heating plants have realized a lower consumption of fuel oil. But on the totaly level, we have a record consumption of fuel.

Most of the consumption of fuel oil was realized in the two main heating plants "Istok" and "Zapad" which have a greatest consumer capacity connected to them.

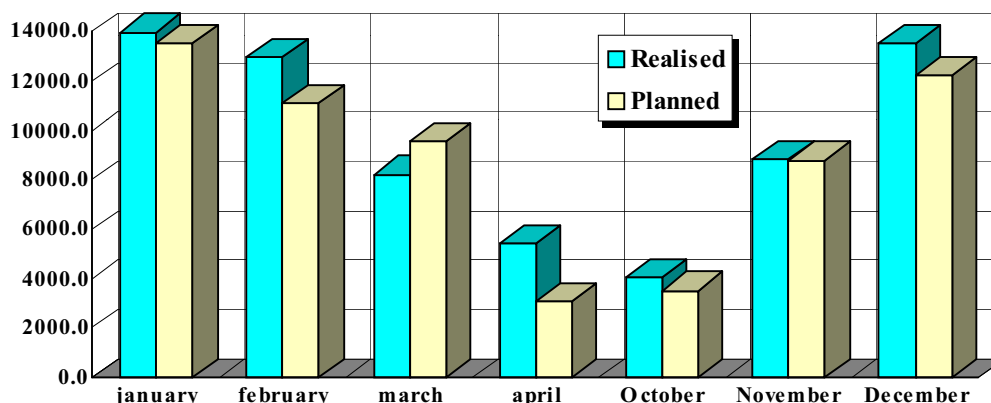
T 7 Consumption of fuel oil in the months of 2003.

MONTH	Istok	Zapad	11 Oktom.	Total
January	8629.0	4530.2	805.2	13964.4
February	7490.5	4657.6	805.5	12953.6
March	4570.1	3088.7	547.6	8206.4
April	3182.0	1899.7	339.9	5421.6
October	2547.4	1273.8	215.5	4036.7
November	5526.9	2795.7	483.5	8806.1
December	8341.3	4481.3	724.7	13547.3
TOTAL:	40287.2	22727.0	3922.0	66936.1

The heating plant "Istok", being the largest energy capacity in our system, has this year also consumed more fuel oil than in the rest of the heating plants together. Compared with the previous years the quantity of consumed fuel oil in this plant is biggest since 1997, due to the use of natural gas which is used as substitution for the fuel oil.

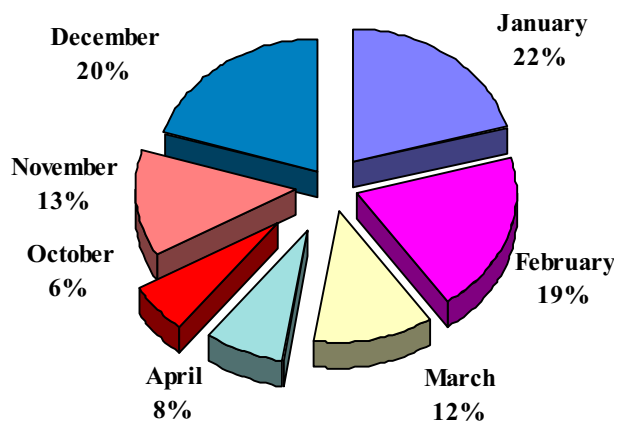
The months with the lowest average outside temperatures (January, expecially February and December), when the longest periods of delivery of heat were also registered, also registered the greatest consumption. The following graph shows the consumption of fuel oil per month compared with the planned quantities.

Consumption of Fuel Oil in The Year 2003

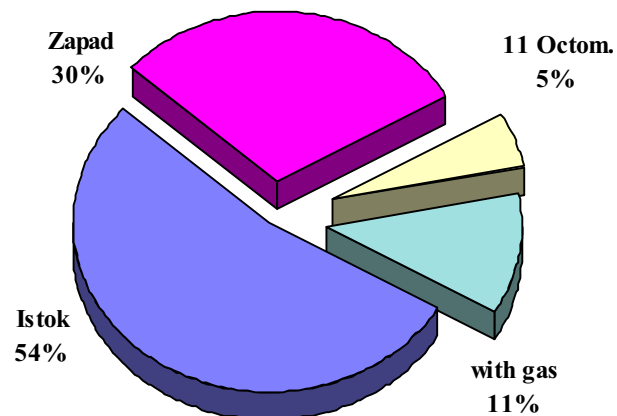


The upper diagram clearly points out that the consumption per month was mostly over the planned value excluding march, yet the situation is not quite clear due to the substitution of fuel oil with natural gas. The following diagrams give a picture of the percentages in separate months, i.e. the various heating plants, in the total consumption of fuel oil, during 2003.

Montly Consumption of Fuel Oil in 2003



Fuel Oil Per Plant in 2003



2.5.2. Consumption of Natural Gas

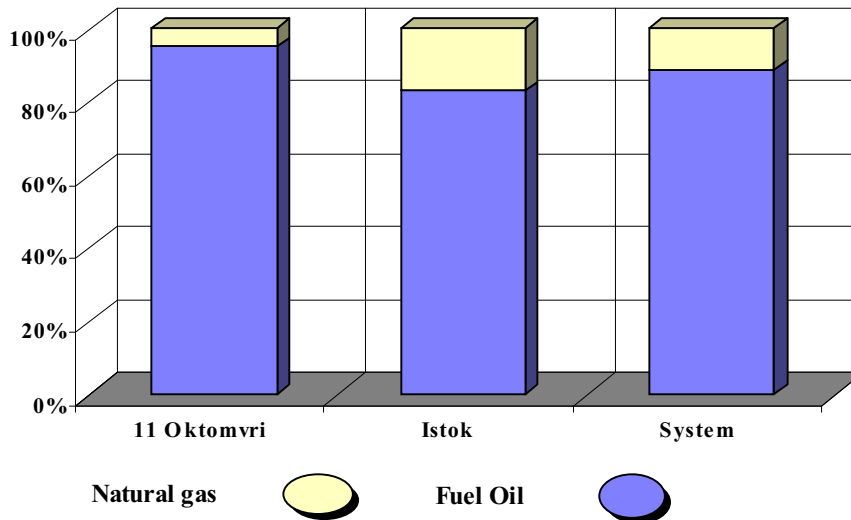
During the whole of the heating season of 2003 (with varying intensity) natural gas was also used in the Heating Plants "Istok" and "11 Octomvri". The realized consumption during the heating season of 2003, as well as the appropriate quantities of fuel oil which would have been consumed instead of the natural gas for the months of 2003 are stated in the following table T7a.

T7a Consumption of natural gas in the months of 2003.

Natural. gas (m _n ³)	I	II	III	IV	X	XI	XII	Total
"Istok"	2.396.248	2.728.308	2.393.159	658.519	294.468	606.308	899.208	9.976.218
"11 Oktomvri"		7.310	11.883	1.517	12.266	50.428	169.860	253.264
Total	2.396.248	2.735.618	2.405.0420	660.036	306.734	656.736	1.069.068	10.229.482
Equivalent fuel oil (ton)	2020,49	2306,64	2027,90	556,53	258,63	553,75	901,42	8625,37

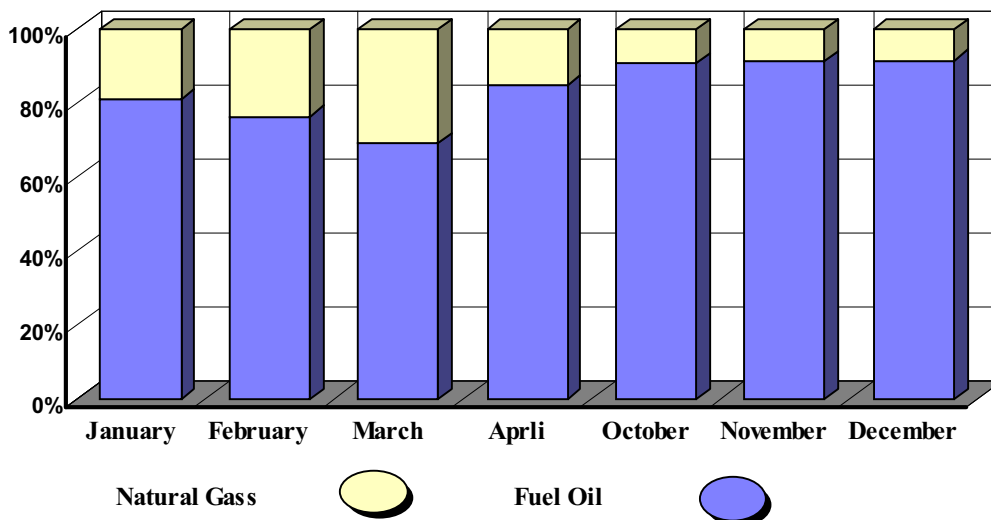
The participation of natural gas in the consumption of fuel in the heating plant "Istok" and "11 Octomvri" as well as compared to the total consumption in the whole system is given in the following bars.

Types of Fuels in "Istok" and "11Oktovri" Plants



The bar interpretation gives a percentage of natural gas compared with the fuel oil consumption in the heating months of 2003.

Types of Fuel Consumptions in 2003



2.6. ELECTRICAL POWER CONSUMPTION

The total consumption of active electric energy in the heating months of 2003, amounted to 18.948.112 (kWh). If we take into account that the planned consumption of electric energy for the year 2003 was 18.560.000 (kWh), the realized total consumption is little over the planned level. Amount of 152.574 (kWh) active electric energy has been consumed in the substations, having in mind that the meters were often blocked, so the consumption in the substations should be taken with certain reserve. Here we have to know that in TO Istok was not in use sixth series of circulation pumps in the overall part of heating season, which means that the power consumption has to be larger in the future. We must mention also that the boiler houses "Vodno" functions as a substation, i.e. it is using solely the circulation pump.

The variation of power consumption in the past years (1996/2003) is given in the following table.

T8 Power consumption in the period 1996/2003.

Structure	1996 (kWh)	1997 (kWh)	1998 (kWh)	1999 (kWh)	2000 (kWh)	2001 (kWh)	2002 (kWh)	2003 (kWh)
Heating plants	19.357.462	20.387.872	18.837.219	19.120.613	17.733.808	18.713.418	18.371.727	18.948.112
Sub stations	203.964	187.975	165.636	140.448	185.420	149.778	155.787	152.574
TOTAL	19.561.426	20.575.847	19.002.855	19.261.061	17.919.228	18.863.196	18.527.514	19.100.686

If we compare the consumed quantities of active electric energy in the past several years we can notice that there is a tendency of constant increase of the consumption until the year 1997, when the largest consumption has been registered. The next two years after that there is a mild increase.

The year 2003 registers a little increase of consumed electricity, which is a consequence of the bigger number of working hours. Smaller number of series of circulation pumps was commissioned in the Heating Plant "Istok". If a sixth series of circulation pumps was commissioned in the Heating Plant "Istok", that would increase the consumption of electric energy, which can be the case in the future.

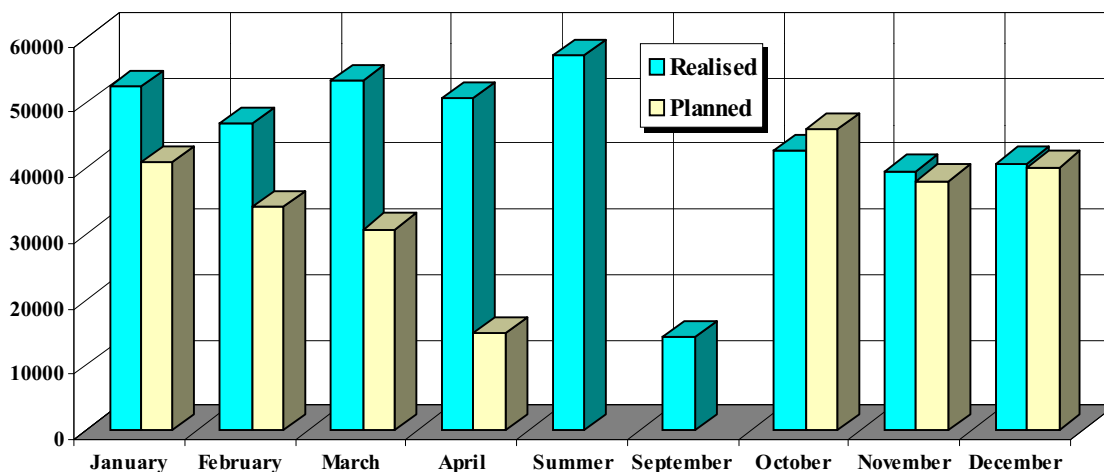
2.7. CONSUMPTION OF CHEMICALLY PREPARED WATER AND SALT

The whole system is supplied with water through the heating plants "Istok" and "Zapad", while only the plant "11 Oktomvri", which is not connected to the rest of the system, supplies its own water. The consumption of chemically prepared water for the heating plants for each month in year 2003 is given in the following table. The data has been supplied from the Department of Chemical Preparation of Water.

T9 Consumption of chemically prepared water in the months of 2003.

	Istok (m ³)	Zapad (m ³)	11 Oktom. (m ³)	Total (m ³)
January	26950	23783	1836	52569
February	22335	23287	1194	46816
March	24377	27472	1496	53345
April	23809	25218	1701	50728
Summer	38103	18692	417	57212
September	13985	300	0	14285
October	27199	13791	1811	42801
November	18180	19268	2174	39622
December	22544	16079	2209	40832
TOTAL:	217482	167890	12838	398210

The following graph gives a picture of the consumption of the chemically prepared water per month in 2003.

**Consumption of Prepared Water in 2003 in m³**

The previous graph gives a picture of the consumption of chemically prepared water in each of the months of year 2003. The plan for 2003 intended a quantity of 245.100 (m³) prepared water. The realized consumption of 398.210 (m³) is above the planned quantity for 153.110 (m³) or 62,5% of the total amount. Compared with the consumption for 2002 of 306.749 (m³), there was increased consumption in 2003 for 30%.

The following table presents the consumption of industrial salt per month in 2003 as well as in the previous several seasons. Obviously we have increased consumption of salt in the last 2 year after 2 years of decrasing.

T.9a. Consumption of industrial salt in the heating plants in 1995/2003

	1995 (kg)	1996 (kg)	1997 (kg)	1998 (kg)	1999 (kg)	2000 (kg)	2001 (kg)	2002 (kg)	2003 (kg)
Istok	116.400	78.050	96.600	132.950	150.000	125.400	112.970	139.150	153.450
Zapad	118.900	90.850	101.650	102.850	87.830	92.000	69.700	108.900	157.150
11 Okt.	5.470	7.200	6.400	6.000	10.950	13.920	11.960	19.575	15.175
TOTAL:	240.770	176.100	204.650	241.800	248.780	231.320	194.630	267.625	325.775

Taking into account the planned quantity of salt of 245.100 (kg), the actual consumption is also over this level.

The specific consumption of salt in 2003 amounts to 0,71 kg/m³ for Heating Plant "Istok", 0,94 (kg/m³) for Heating Plant "Zapad" is better than planned, while the Boiler House "11 Oktomvri" this amounts to 1,18 (kg/m³).

2.8. PRODUCED HEAT

A total amount of 783.874 MWh of heat was produced in the heating months of 2003, which is somewhat over the planned quantity for the year of 755.026 MWh. The following table gives the data on produced heat per heating plant per month during 2003, having in mind that the production of heat with fuel oil and gas, as well as the total amount, in plant "Istok" and "11 Oktomvri" are given separately.

T10. Production of heat in months and per heating plants in 2003.

	Istok- fuel oil (MWh)	Istok-gas (MWh)	Istok Total (MWh)	Zapad (MWh)	11 Okt.- fuel oil (MWh)	11 Okt. - gas (MWh)	11 Okt. - total (MWh)	Total (MWh)
January	89517.2	20960.5	110477.8	46996.3	8353.1	0.0	8353.1	165827.2
February	77706.4	23865.1	101571.6	48317.9	8356.6	63.9	8420.5	158310.0
March	47410.2	20933.5	68343.7	32042.2	5680.8	103.9	5784.7	106170.6
April	33010.1	5760.2	38770.3	19707.5	3526.1	13.3	3539.4	62017.2
October	26426.3	2575.8	29002.1	13214.7	2235.7	107.3	2343.0	44559.8
November	57336.2	5303.5	62639.7	29002.4	5015.6	441.1	5456.7	97098.8
December	86532.6	7865.6	94398.2	46488.5	7518.3	1485.8	9004.2	149890.9
TOTAL:	417939.1	87264.2	505203.3	235769.5	40686.3	2215.4	42901.7	783874.4

Of the total heat produced, in Heating Plants "Istok" and "Zapad" small part is used for own needs (heating the fuel oil and working offices) and the rest is delivered to the customers. The total heat delivered from the plants amounts to 780.549 MWh. The quantity of delivered heat from all heating plants for 2003 are stated in the following table.

T10a. Delivery of heat at the exit of the heating plants in 2003.

	Istok (MWh)	Zapad (MWh)	11 Okt. (MWh)	Total (MWh)
January	110025.3	46759.5	8353.1	165137.9
February	101154.2	48070.8	8420.5	157645.5
March	68089.6	31884.6	5784.7	105758.9
April	38591.2	19692.2	3539.4	61822.8
October	28867.5	13151.7	2343.0	44362.2
November	62322.7	28860.2	5456.7	96639.6
December	93925.7	46252.8	9004.2	149182.7
TOTAL:	502976.1	234671.8	42901.7	780549.5

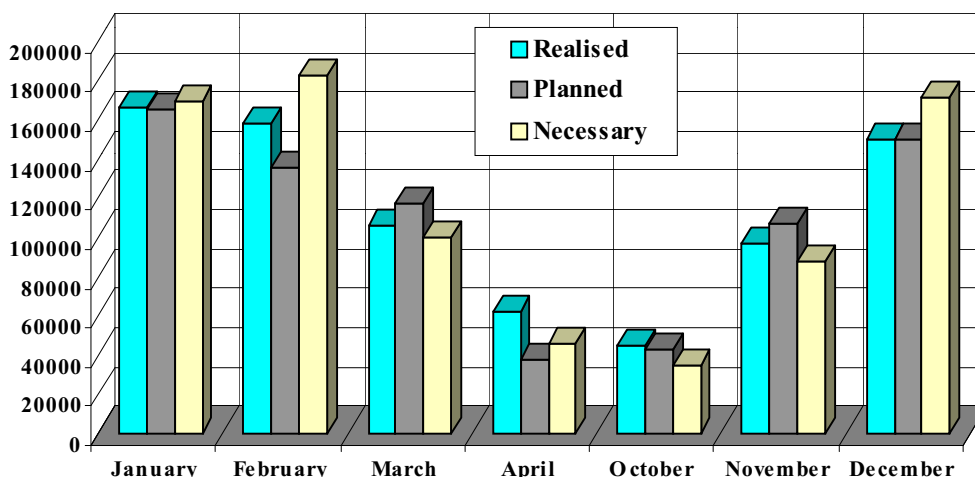
Several years now, the losses from the distributive network are calculated at 17%. But in 2001 year with instaling heat meters in objects the losses in the distributive network become on level of 13% which means that delivered heat amounts to the consumer in the year 2003 was 679.078 MWh.

The following table presents the values of delivered heat to the consumers from each of the plants per month of the heating season

T10b. Delivered heat to the consumers in 2003.

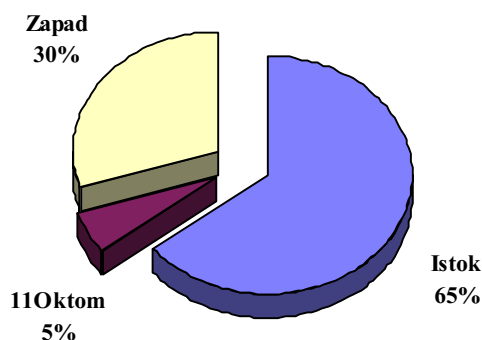
	Istok (MWh)	Zapad (MWh)	11 Oktom. (MWh)	Total (MWh)
January	95722.0	40680.8	7267.2	143670.0
February	88004.1	41821.6	7325.8	137151.6
March	59238.0	27739.6	5032.7	92010.3
April	33574.3	17132.2	3079.3	53785.8
October	25114.7	11442.0	2038.4	38595.1
November	54220.7	25108.4	4747.4	84076.4
December	81715.4	40239.9	7833.6	129788.9
TOTAL:	437589.2	204164.5	37324.4	679078.1

Heat Production in 2003 in MWh

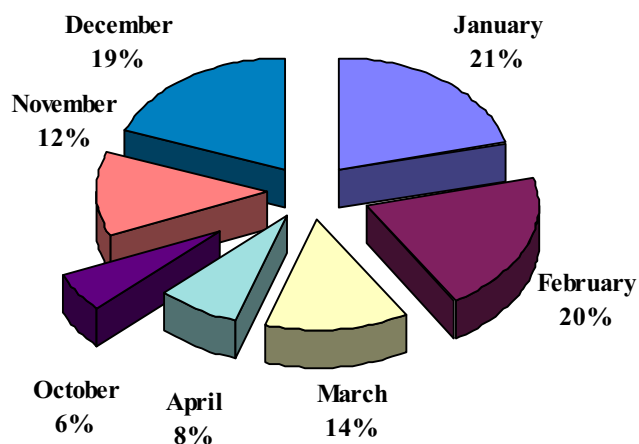


The production of heat from the separate plants and in the months of the heating season in year 2003 are given with the following pies.

Heat Production in 2003

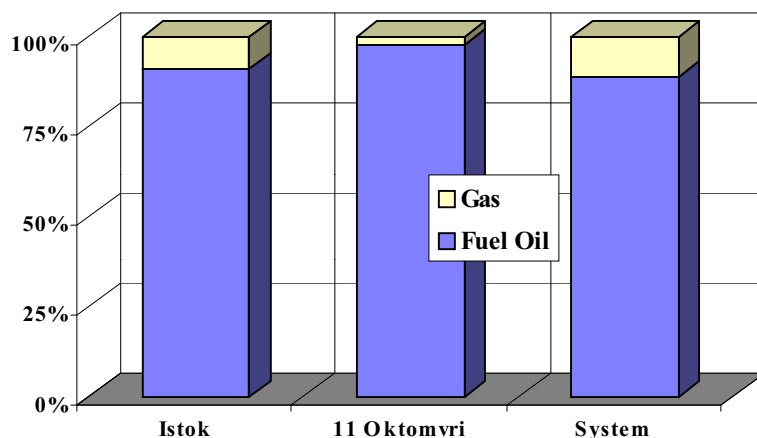


Heat Production in 2003



The previous pie shows that in the year 2003 the months of January, February and December dominates with its "production" over the rest of the heating months, most of all because of the registered low outside temperatures.

Fuels Types in Production of Heat in 2003



Throughout 2003, natural gas was used as well as fuel oil in the heating plants "Istok" and "11 Oktomvri". The produced heat through combustion of gas, expressed in percentages, compared with the total production of heat in the whole district heating system amounts to 11,4%.

In comparison with the previous year this percentage of heat produced with gas has dropped, because of the highest prices of natural gas. The previous graphics present the percentages of natural gas and fuel oil in the production of heat, only in plant "Istok", "11 Oktomvri" and in relation to the total produced heat in the district heating system.

3. FINANCIAL FLOWS IN 2004

Based upon the projection of the annual financial calculation of the company for the year 2003, basic financial flows are determined in the activity of Toplifikacija AD - Skopje. First the basic aggregate positions are determined of the financial flows of the company in the following table T.20.

T.20. Basic financial aggregate positions in 2002/2003

amounts in (000) Denars

ELEMENTS	Previous year I-XII- 2003	Current year I-XII- 2004	Column 3(%)	Index (3:2)
1	2	3	4	5
1. Realized total revenues	1,541,836	1,549,739	100,00	100,51
2. Realized total expenses	1,440,095	1,425,162	91,96	98,96
3. Gross profit (1-2)	101,741	124,577	8,04	122,45
3.1 Fiscal obligations from the profit	8,649	26,508	1,71	306,49
3.2 Net profit (3-3.1)	93,092	98,069	6,33	105,35

In continuation of the report, certain positions of the financial flows of Toplifikacija for the year 2004, in comparison with the previous year are shown in tables.

T.20.a. Review of balance positions in the financial flows of Toplifikacija AD Skopje in 2002/2003

No	ELEMENTS	Amounts in (000) Denars		On column 3 %	03/04 3:2
		2003	2004		
		1	2	3	4
A)	Total revenues	1,541,836	1,549,739	100	100,50
1.	Balance of revenue positions-heat	1,418,352	1,336,502	86,42	94,20
*	Residential space	838,034	843,052	54,40	100,60
*	Business space	467,896	493,450	31,84	85,00
2.	Revenues of secondary activities	75,177	159,477	10,29	212,13
2.1	Revenues from financing (rates)	17,703	14,420	0,93	81,50
*	Interests	19,918	9,215	0,59	66,20
*	Other	3,785	5,205	0,34	137,50
2.2	Other activities	86,170	145,057	9,36	168,33
*	Insurance (revenues from paid damages)	1,096	625	0,04	57,00
*	Own products and services in the investments for fixed assets in Toplifikacija	1,552	2,127	0,14	137,00
*	Revenues from investments in maintenance and expanding the network	32,568	56,780	3,66	174,30
*	Design and supervision	1,548	916	0,06	59,20
*	Sales of various and waste materijals and fuel	49,406	84,609	5,45	171,00
3	Revenues from additional activioties	45,877	53,760	3,46	117,18
⇒	Other revenues	19,611	22,228	1,43	113,34
⇒	Revenues from projects	0,00	31,532	2,03	0,00
B)	Balance of expenses positions	1,440,095	1,425,162	100,00	99,00
1.	Direct expenses for production	948,363	744,860	52,26	78,50
1.1	Fuel for basic activity	865,189	668,022	46,87	77,20
*	fuel oil	753,713	647,383	45,43	85,90
*	Natural gas	111,476	20,639	1,45	18,50
1.2	Electrical power	50,459	49,038	3,44	97,20
1.3	Tehical prepered water	6,607	4,363	0,31	66,00
1.5	Gasoline, diesel/light oil and lubricants	2,019	2,422	0,17	120,00
1.6	Consumed raw and reproduction materijals, spare parts	24,089	21,015	1,47	87,20
2.	Administrative expanditures	84,948	86,342	5,98	100,46
2.1	Office materijals	3,357	2,429	0,17	72,35
2.2	Transportations and Postal services	7,315	7,970	0,55	108,95
2.3	Expanditures for public services	74,276	75,943	5,32	102,24
*	Rent for network	3,134	3,154	0,22	100,63
*	Court taxes	3,987	4,506	0,31	113,01
*	Custom taxes and traffic registrations	956	942	0,06	98,536
*	Bank services	4,331	6,191	0,43	142,94
*	Permiton (lince) for basic activities	2	0	0,00	0,00
*	Variouse municipal services	8,635	7,041	0,49	81,5
*	Various taxes and contributions	1,889	1,698	0,12	89,88
*	Expanditures for hiring workers	8,062	9,131	0,64	113,25
*	Obligations for maintenance of the network, other's basic assets and privatization Agency	43,280	43,280	3,01	100,00
2.4	Other costs of operation	42,468	82,530	2,95	162,06
*	Sale of fuel oil (purchase value)	22,018	65,542	4,59	297,67
*	Spear parts and raw materials (purchase value)	20,450	16,988	1,19	83,07
2.5	Non-material costs	88,749	236,081	16,56	266,00

*	Transport and nourishment of the workers	19,262	19,540	1,37	101,44
*	Intellectual services	557	167	0,01	29,98
*	Travel costs	844	1,404	0,09	166,35
*	Deducted demands	55,277	199,557	14,00	361,01
*	Vacation money	4,186	4,248	0.29	101,48
*	Jubilee awards and compensation money	603	642	0.04	106,46
*	Representations	759	904	0,06	119,10
*	Solidarity help	709	1,270	0,08	179,12
*	Other non-material costs	6,552	8,349	0,58	127,42
2.6	Gross salaries	137,779	134,510	9.43	97,6
	Net salaries and compensations	81,321	79,456	5,57	97,70
	Deductions and taxes	56,458	55,054	3,86	97,51
2.7	Insurances	5,739	4,615	0,32	80,41
3.	Depreciation/Amortization	61,303	68,944	4,83	112,46
4	Finance expenses	51,559	22,976	1,61	44,56
5.	Maintenance of the system network	19,187	17,041	1,19	85,99
*	Investment maintenance	11,165	9,979	0.70	89,37
*	current maintenance	8,022	7,062	0,49	88,03
6.	Projects expenses	0	27,263	1,91	0

3.1. BALANCE OF REVENUES

In the calendar year of 2003 the realization of the activity of Toplifikacija is carried out in conditions of a mainly identical monetary economic policy in Macedonia, realization of the production of heat of 783.874 MWh, heat consumption of our clients with installed 597.367 MW, as well as other achievements which are mainly in accordance with the Annual Business Plan of the company.

In context of such an economic situation, according to table 20/a, it is determined for the report year 2003 that the balance of revenue positions in the operations of Toplifikacija AD - Skopje is a total amount of: 1.541,836 mil.Denars, which is in accordance with the results from the activities of Toplifikacija.

Based upon such data an increase of the revenues of Toplifikacija AD has been registered amounting 13,35% for this period, which is due to, a larger consumption by the clients, as well as a higher realization in the other fields of activity of Toplifikacija.

The mass of the balance of the revenue elements in 2003, amounting 1.541.836 mil.Denars consists mostly of the achievements realized through the basic activity - delivery of heat - amounting to 1.418.352 mil.Denars or 91,99%, and is made up of the following positions:

- Residential space: 838.034 mil.Denars or 54,35%
- Business space: 580.318 mil. Denars or 37,64%

The achievement in the additional activities is determined for year 2003 at a value of 123.484 mil.Denars, or 8.01% participation in the mass of the total revenues of the company. These revenues are made up of the following revenue positions:

- Revenues from financing 17.703 mil.Denars
- Revenues from insurance of assets 1.552 mil.Denars
- Maintenance investments and expansion of the grid 32.568 mil.Denars
- Sales of waste materials 33.163 mil.Denars
- All other revenues 38.498 mil.Denars

The revenues from other activities in 2003 is amounting 105.781 mil.Denars, so the revenues from other activities are registering decrease of 8,58%.

The Balance of Expenditures of Toplifikacija AD in the year 2002 has been determined at 1.264.796 mil.Denars. In 2003 there is expenditure of 1.440.095mil.Denars which represents an increase of the total costs in the operation of the company in 2003 of 13.86 %.

By comparing the Revenues with the Expenditures from the Balance for 2003 in table 20/a, a positive financial result is determined in the operation of Toplifikacija AD - Skopje at the end of the year 2003 with a gross profit amounting to 101.741 mil.Denars. From this profit, the tax obligations from profit amount to 8.649 mil.Denars, while the net profit from the operation of Toplifikacija in 2003 is an amount of 93.092 mil. Denars

3.2. BALANCE OF EXPENDITURES

In order to realize the full scope of activities of Toplifikacija AD, at the end of the report period for the year 2003, according to table 20/a expenditures in the operation of Toplifikacija have been determined with a value of 1.440.095 mil.Denars. In comparison with the previous period this is an increase of the expenditures amounting 175.299 mil.Denars or 13,90%.

The increase of operation expenditures of Toplifikacija AD in this period is greatly due to the expansion of costs for fuel for our activities, as well as to the increase of the costs of certain energy resources necessary for our operation.

The expenditures in the Balance Sheet of Toplifikacija AD in 2003 are stated in tables 20/a and 20/b, here following :

Energy fuels in the activity of Toplifikacija AD according to table 20/b for the year 2003 amounts to (equivalent of fuel oil) 75.562 tons. The financial funds for this quantity of consumption of fuel an amount of 865.189 mil.Denars has been set aside, which is 60,08 % of the mass of total expenditures in the operation of Toplifikacija AD in the year 2003

According to the table the financial funds set aside for fuel consumption are registering an increase of 15,78 %, which is due to increase of consumption of equivalent fuel for 10.99%, or 15.78% from financial aspects with registered increase of the ponder price for equivalent fuel for 4.30%.

T.20.b. Realized consumption of basic energy sources in the activity in 2002/2003

ELEMENTS	2002	2003	3:2
1	2	3	4
1. Fuel, in equivalent quant. fuel oil (t)	68,075	75,562	110.99
- amounts in (000) Den	747,274	865,189	115.78
- pondered price Den/t	10,977	11.450	104.30
a) Fuel oil (t)	52,263	66,936	128.07
- amounts in (000) Den.	557,399	753,713	135.22
- pondered price Den/t	10.665	11.260	105.57
b) Natural gas in m _n ³	19,030,830	10,229,482	53.75
- fuel oil equivalent (t)	15,812	8,626	53.75
- amounts in (000) Den.	189,875	111,476	58.71
- pondered price Den/t	12.008	12,923	107.61
- pondered price Den/ m _n ³	9.977	10,897	109.22
2. Electric power in MWh	18,528	19,101	103.09
- amounts in (000) Den.	48,501	50,459	104.04
- pondered price Den/MWh	2.617	2.642	100.95

T.21. Average annual net salary per employee in Toplifikacija AD 2003.

Degree of education	Realized in 2002		Realized in 2003		Index	
	number of employees	average annual salary	number of employees	average annual salary	4:2	5:3
1	2	3	4	5	6	7
University - High education I	7	38.500	6	38,186	85.71	99.18
University - High education II	27	25.040	27	26,082	100.00	104.16
University - Higher education	7	22.740	7	22,481	100.00	98.86
Secondary Education	214	17.620	215	17,977	100.47	102.03
Highly Qualified	42	20.240	41	20,735	97.62	102.45
Qualified	47	16.680	43	16,941	91.49	101.56
Half-qualified	13	13.400	11	12,809	84.612	95.59
Non-qualified	8	11.650	8	11,473	100.00	98.48
Total for all	365	18.580	358	18,924	98.08	101.85

Only those employed and active in Toplifikacija during the whole period have been taken into account in the previous table.

3.3. BALANCE OF CONDITIONS ON 31.12.2003

T.22. Conditions of the working assets of Toplifikacija on 31.12.2003

POSITION	Current value of assets -10 ³ Den		Column 3	index
	2002	2003	%	3:2
1	2	3	4	5
I. Assets	2,173,529	2,222,618	100.00	102.26
1. Permanent assets	1,299,920	1,286,015	57.86	98.93
1.1. material assets	981,300	961,227	43.25	97.95
- buildings	365,124	369,206	16.61	101.12
- equipment	545,432	529,902	23.84	97.15
- material assets in preparation	70,744	62,119	2.79	87.81
1.3.Financial investments (long-term)	318,620	324,788	14.61	101.94
- Shares in linked units	243,327	249,430	11.22	102.51
- Investments in securities	75,293	75,358	3.39	100.09
- Other investments	0	0	0	0
2. Working (Current) capital	873,609	936,603	42.14	107.21
a) Stock	130,553	106,707	4.80	81.73
- raw materials	129,217	105,893	4.76	81.95
- trading goods	0	0	0	0
- advanced payment, deposits, caution money	1,336	814	0.04	60.93
b) Short-term claims	686,282	790,996	35.59	115.26
- claims from buyers	645,862	751,871	33.83	116.41
- claims from employees	1,003	799	0.04	79.66
- other claims	39,417	38,326	1.72	97.23
-cash and securities	56,774	35,917	1.62	63.26
3. Payed costs in advance	0	2,983	0.13	0
II. Liabilities (Sources of funds)	2,173,529	2,222,618	100.00	102.26
1. Capital reserves	1,547,422	1,563,565	70.35	101.04
1/1. Called up capital	1,394,100	1,394,100	62.72	100.00
1/2. Legal reserves	25,482	39,062	1.76	153.29
1/3. Accumulated profit	37,310	37,310	1.68	100.00
1/4.Profit from the financial year	90,530	93,093	4.19	102.83
2. Long-term reserves for risks	12,000	12,000	0.54	100.00
3. Long-term and short-term liabilities	611,791	645,137	29.03	105.45
- liabilities for investments	0	0	0	0
- liabilities for loans and credits	160,578	145,919	6.57	90.87
- liabilities for advanced payments, deposits and caution money	8,379	5,371	0.24	64.10
- liabilities to the suppliers	374,422	381,365	17.16	101.85
-liabilities to the employes	7,421	6,958	0.31	93.76
-liabilities of results participation	60,659	103,537	4.66	170.69
- liabilities for taxes and contributions	7,753	1,987	0.09	598.49
4. Delayed payment of costs	2,316	1,916	0.09	82.73

4. SHAREHOLDING

4.1. Privatization and transformation of capital

After a lengthy procedure Toplifikacija AD - Skopje was re-registered in a new transformed form on 05.04.1999 becoming a totally privatized company. The procedure was carried out in accordance with the procedure of "Privatization by all employees".

Only the above-ground sources, two heating plants and 3 boiler houses, were the subject of this transformation of Toplifikacija AD - Skopje. The grid remains the ownership of the state. The grid has, nevertheless, been given as a concession to Toplifikacija AD - Skopje for maintenance and operation. Any sort of further investment in the grid will be treated as an equity investment by Toplifikacija.

As the company was assessed at 23.008.050 Euros, and a total of 450.000 shares were issued. This was allocated in the following manner.

Pension Fund	Priority shares	21.343	4,74 %
Individuals (employees, pensioners from Toplifikacija,...)	Ordinary shares	428.657	95,26 %

* Priority shares are shares which do not give a management right but do bring the right to a dividend. Ordinary shares give both management and dividend rights.

Within the group "Individuals" the total initial number of shareholders was 414 persons. This number has somewhat grown with the transactions and transfer of shares now amounting to 560 "Individuals". The maximum number of shares initially held by one person was in average 741 shares. The maximum held by one person was 2203 shares. In the meantime there has been relatively active trading of these shares, yet never in any dominant or large numbers. It seems that people have found it a very solid investment for their saving instead of putting their money in a bank.

Trading with our shares started on 29.06.1999. That year there were 29 days of trade of our shares and a turnover of 231.580 DEM was achieved. The next year, in 2000, there was 76 days of trade of our shares with a turnover of 866.690 DEM. In the year 2001, there was 89 days of trading with our shares with turnover of 48.592.033 Denars.

In the year 2001, there were 89 days of trading with our shares with turnover of 48.592.033 Denars. In the year 2002, there were 124 days of trading with our shares with turnover of 46.897.199 Denars. (369 transactions). In the year 2003, there were 120 days of trading with our shares with turnover of 49.288.619 Denars. (341 transactions)

In the summer of 2003 the privatization of the company went up to 95.26%, after the Ordinary shares owned by Privatization Agency of Republic of Macedonia was sold on the Exchange Market.

5. EXPECTED CONDITIONS IN THE NEXT YEAR

5.1. FINANCES AND ORGANIZATION

In the past year we had continuously two unfavorable moments for the company from a financial aspect. The price of crude oil on the world market with an annual average was the highest for the past ten years. Additionally, the value of the Dollar was also at its highest level for the past ten years. This has caused a substantial increase of the price of fuels issued in our system.

In the year 2001 was made quotation of shares of Toplifikacija AD, Skopje at the first market of Macedonian stock exchange for long term securities. In the days when it was done as a first company, the price of shares got maximum price, and of that moment the interest for our shares become larger. Our shares until today are the most traded shares on the stock exchange. Such trading has until now led to a substantial increase of the number of shareholders in Toplifikacija AD Skopje. Further more, we are also intending to make quotation of our shares at the market of Athenas stock exchange for the long term securities.

During the year 2001 Elektrostopanstvo na Makedonija /the Power Production Company/ entered the project for the construction of the CHP Plant Skopje, so that together with them we are engaged in the forming of a joint company which will lead the construction of the CHP Plant. The share of Toplifikacija AD in that company would be the same as in the previous planning, 20%.

In 2004 special attention will be given to the improvement of the organization of operation and the defining of procedures for the realization of each task in the company. A substantial improvement of the quality of work should be achieved through this and a reduction of the costs of operation. This should be done according to the Certificate of Approval for the Quality Management System standards ISO 9001:2000, which the company received from Lloyd's

Register Quality Assurance in the very beginning of the year 2003.

5.2. TECHNICAL AND TECHNOLOGICAL ASPECTS

The activities of the technical and technological plan for 2004, as in the previous year, will be directed towards:

- revitalization of the basic technological elements;
- increase of the technological security of the system;
- modernization of the existing equipment

The activities in the previous period have finalized the revitalization of heat sources and the revitalization of the distributive grid.

A greater technological security of the system has been achieved through the realized activities, and this security must be maintained in the forthcoming period.

In the year 2004 the use of natural gas will continue with a gradual increase of the quantities used in the heating plant TO "Istok". Also it is already started with partial exploitation of the boilers in heating plant "11 Oktomvri" on natural gas as fuel and it is expected to be continued.

First, and permanent priority in the next year will also be given to the improvement of the characteristics of our heat sources in relation to the environment. In this sense, of crucial importance is the maintenance of the monitoring system, increase of consumption of natural gas and the use of high quality types of fuel oil.

In 2004, the start is expected for measurement of consumption of heat in all connected structures to the district heating system, which will improve the equalization of the heat distribution to all consumers. In addition, special attention will be given to the project for remote control of the substations. It is planned 300 substations to be adopted for remote controlling.

TABLE OF CONTENTS

1. INTRODUCTION	1
1.1. PERSONNEL STRUCTURE	2
2. REALIZATION OF THE ECONOMIC ACTIVITY	2
2.1. CLIMATIC PARAMETERS.....	3
2.2. HEATING PERIOD	3
2.3. INSTALLED CAPACITY.....	3
2.3.1. Hot Water Capacity.....	3
2.3.2. Steam Capacity	4
2.4. CONNECTED HEAT CAPACITY	5
2.5. FUEL CONSUMPTION.....	6
2.5.1. Consumption of Fuel Oil.....	6
2.5.2. Consumption of Natural Gas.....	7
2.6. POWER CONSUMPTION.....	8
2.7. CONSUMPTION OF CHEMICALLY PREPARED WATER AND SALT.....	9
2.8. PRODUCED HEAT	10
3. FINANCIAL FLOWS IN 2000	12
3.1. BALANCE OF REVENUES.....	14
3.2. BALANCE OF EXPENDITURES.....	15
3.3. BALANCE OF CONDITIONS ON 31.12.2000.....	16
4. SHAREHOLDING	17
4.1. Privatization and transformation of capital	17
5. EXPECTED CONDITIONS IN THE NEXT YEAR	17
5.1. FINANCES AND ORGANIZATION.....	17
5.2. TECHNICAL AND TECHNOLOGICAL ASPECTS.....	18